

FOSSIL GROUP

FOSSIL GROUP, INC. REPORTS SECOND QUARTER 2024 FINANCIAL RESULTS

Continued Operational and Financial Progress under TAG Plan

Maintains Full Year 2024 Outlook

Richardson, TX, AUGUST 8, 2024 (GLOBE NEWSWIRE) - Fossil Group, Inc. (NASDAQ: FOSL) today announced financial results for the fiscal second quarter ended June 29, 2024.

Second Quarter Summary

- Second quarter worldwide net sales decreased to \$260 million, down 19% on a reported basis and 18% in constant currency, which includes five points of negative impact related to the Company's strategic actions to exit the smartwatch category and optimize its retail store portfolio.
- Gross margins expanded 390 basis points to 52.6%, primarily reflecting progress under the Company's Transform and Grow ("TAG") Plan.
- Selling, general and administrative ("SG&A") expenses of \$154 million were down 18% versus last year, primarily due to lower compensation costs as a result of efficiencies from the Company's TAG Plan.
- Second quarter operating loss of \$34 million compared to operating loss of \$35 million a year ago. Adjusted operating loss of \$17 million compared to adjusted operating loss of \$28 million last year.
- Inventory totaled \$202 million, a decrease of 38% versus a year ago; the Company had total liquidity of \$156 million at quarter end, including cash and cash equivalents of \$105 million and \$51 million of availability under its revolving credit facility.

"Our second quarter results were in line with our expectations and reflect continued progress under our TAG Plan," said Jeffrey Boyer, Interim CEO. "Strong execution of our initiatives resulted in gross margin expansion, cost reduction and adjusted operating margin improvement in the second quarter. Our teams remain focused on further advancing our TAG Plan, while progressing on our actions to stabilize the business, strengthen the balance sheet and conduct a strategic review of our business model and capital structure."

Second Quarter 2024 Operating Results

Amounts referred to as "adjusted" as well as "constant currency" are non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to their closest reported GAAP measures are included at the end of this press release.

- **Net sales** totaled \$260.0 million, a decrease of 19.3% on a reported basis and 18.5% in constant currency compared to \$322.0 million in the second quarter of fiscal 2023. The sales decrease was largely driven by overall category, consumer and channel softness. Declines in smartwatch sales resulting from our exit of the category, and our store rationalization initiatives comprised approximately 5 points of the sales decline in the second quarter. Net sales, in constant currency, declined 18% in the Americas, 15% in Europe and 20% in Asia. Wholesale sales declined 16% while our direct to consumer sales decreased 22% on a constant currency basis. Within our direct to consumer channels, comparable retail sales declined 10%. In our major product categories, traditional watch sales declined 17% in constant currency in the second quarter compared to the prior year period. The leathers category decreased 18% and jewelry sales declined 10% in constant currency during the second quarter. From a brand lens, the majority of the brands in our portfolio decreased in the second quarter.
- **Gross profit** totaled \$136.9 million compared to \$156.7 million in the second quarter of 2023. Gross margin increased 390 basis points to 52.6% versus 48.7% a year ago. The year-over-year increase is primarily due to initiatives under our TAG Plan, including our exit from the smartwatch category and improved product margins in our core categories.
- **Operating expenses** totaled \$170.9 million, down 11% compared to \$192.0 million a year ago. As a percentage of net sales, operating expenses were 65.7% in the second quarter of 2024 compared to 59.6% in the prior year second quarter. Operating expenses in the second quarter of 2024 included \$16.7 million of restructuring costs, primarily related to professional services and employee costs, while operating expenses in the second quarter of 2023 included \$4.6 million of restructuring costs. SG&A expenses were \$153.6 million, down 18% compared to the second quarter of 2023. As a percentage of net sales, SG&A expenses were 59.1% in the second quarter of 2024 compared to 58.1% in the prior year second quarter, largely driven by decreased sales.
- **Operating loss** was \$34.0 million compared to \$35.3 million in the second quarter of 2023. Operating margin was (13.1)% in the second quarter of 2024 compared to (11.0)% in the prior year second quarter. Adjusted operating loss totaled \$16.7 million compared to \$27.6 million in the second quarter of 2023. Adjusted operating margin was (6.4)% in the second quarter of 2024 compared to (8.6)% in the prior year second quarter.
- **Interest expense** decreased to \$4.1 million compared to \$5.3 million in the second quarter of 2023, primarily driven by a lower debt balance.
- **Other income (expense)** was \$1.5 million compared to \$7.2 million in the second quarter of 2023, reflecting decreased net currency gains in the second quarter of 2024 as compared to the prior year second quarter.
- **Income (loss) before income taxes** was \$(36.6) million compared to \$(33.5) million in the second quarter of 2023.
- **Adjusted EBITDA** was \$(11.7) million, or (4.5)% of net sales in the second quarter of 2024 and \$(15.4) million, or (4.8)% of net sales in the prior year quarter.
- **Provision (benefit) for income taxes** was an expense of \$2.2 million, resulting in an effective income tax rate of (6.0)% compared to a benefit of \$7.2 million and an effective tax rate of 21.5% in the prior year.

The effective tax rate in the second quarter of 2024 differed from the prior year second quarter primarily due to a change in the Company's global mix of earnings.

- **Net loss** totaled \$38.8 million with net loss per diluted share of \$0.73, which compares to net loss of \$26.5 million and net loss per diluted share of \$0.51 in the prior year quarter. Adjusted net loss for the second quarter was \$25.1 million with adjusted net loss per diluted share of \$0.47 compared to adjusted net loss of \$20.4 million with adjusted net loss per diluted share of \$0.40 in the prior year quarter. During the second quarter of 2024, currencies unfavorably affected net loss per diluted share by approximately \$0.08.

Balance Sheet Summary

As of June 29, 2024, the Company had total liquidity of \$156.0 million, including \$104.9 million of cash and cash equivalents and \$50.8 million of availability under its revolving credit facility. Inventories at the end of the second quarter of 2024 totaled \$202.1 million, a decrease of 38% versus a year ago. Total debt was \$159 million.

Transform and Grow Plan

The Company remains on track with its TAG Plan, a comprehensive operational plan designed to reduce operating expenses, improve operating margins and advance the Company's commitment to profitable growth. The plan encompasses multiple workstreams with a target to drive \$300 million in annualized operating income benefits by the end of 2025. The TAG Plan generated annualized operating income benefits of approximately \$125 million in 2023 and is expected to generate additional annualized operating income benefits of at least \$100 million in 2024. Restructuring costs associated with the TAG Plan are estimated to be \$40 million in fiscal year 2024.

Strategic Business Review

In March 2024, the Company announced a strategic review of its current business model and capital structure. This includes efforts to optimize its business model through additional changes to its operations, as well as further structural cost reductions, which are under consideration. The Company anticipates this effort will expand on its current TAG Plan and could include additional debt and equity financing options, including monetization of various assets to strengthen its balance sheet. The Company has retained Evercore to act as its financial advisor.

Outlook

The Company is reiterating its full year financial outlook for 2024. Worldwide net sales are expected to be approximately \$1.2 billion, reflecting consumer and channel softness, as well as approximately \$100 million of negative impact related to the exit of its smartwatch business, and the closure of owned retail stores. Fiscal year adjusted operating margin⁽¹⁾ is expected to be in the range of -3% to -5%. The Company expects to generate positive free cash flow⁽²⁾ in full year 2024, inclusive of tax refunds of approximately \$57 million, which were received in the second quarter of 2024.

(1) A reconciliation of adjusted operating margin, a non-GAAP financial measure, to a corresponding GAAP measure is not available on a forward-looking basis without unreasonable efforts due to the high variability and low visibility of certain income and expense items that are excluded in calculating adjusted operating margin.

(2) Free cash flow is a non-GAAP financial measure, defined as net cash from operating activities less net cash used in investing activities. A corresponding reconciliation of free cash flow to a corresponding GAAP measure is not available on a forward-looking basis without unreasonable effort.

Consolidated Income Statement Data

(\$ in millions, except per share data):

	For the 13 Weeks Ended June 29, 2024	For the 13 Weeks Ended July 1, 2023	For the 26 Weeks Ended June 29, 2024	For the 26 Weeks Ended July 1, 2023
Net sales	\$ 260.0	\$ 322.0	\$ 514.9	\$ 647.0
Cost of sales	123.1	165.3	244.6	329.6
Gross profit	136.9	156.7	270.3	317.4
Gross margin	52.6 %	48.7 %	52.5 %	49.1 %
Operating expenses:				
Selling, general and administrative expenses	153.6	187.2	305.9	378.1
Other long-lived asset impairments	0.6	0.2	1.0	0.2
Restructuring charges	16.7	4.6	26.7	11.7
Total operating expenses	\$ 170.9	\$ 192.0	\$ 333.6	\$ 390.0
Total operating expenses (% of net sales)	65.7 %	59.6 %	64.8 %	60.3 %
Operating income (loss)	(34.0)	(35.3)	(63.3)	(72.6)
Operating margin	(13.1)%	(11.0)%	(12.3)%	(11.2)%
Interest expense	4.1	5.3	9.2	10.4
Other income (expense) - net	1.5	7.1	5.3	9.9
Income (loss) before income taxes	(36.6)	(33.5)	(67.2)	(73.1)
Provision (benefit) for income taxes	2.2	(7.2)	(3.9)	(5.6)
Less: Net income attributable to noncontrolling interest	—	0.2	(0.1)	0.3
Net income (loss) attributable to Fossil Group, Inc.	\$ (38.8)	\$ (26.5)	\$ (63.2)	\$ (67.8)
Earnings per share:				
Basic	\$ (0.73)	\$ (0.51)	\$ (1.20)	\$ (1.30)
Diluted	\$ (0.73)	\$ (0.51)	\$ (1.20)	\$ (1.30)
Weighted average common shares outstanding:				
Basic	52.9	52.3	52.7	52.1
Diluted	52.9	52.3	52.7	52.1

Consolidated Balance Sheet Data (\$ in millions):	June 29, 2024	July 1, 2023
Assets:		
Cash and cash equivalents	\$ 104.9	\$ 132.1
Accounts receivable - net	133.1	162.7
Inventories	202.1	323.9
Other current assets	102.3	178.9
Total current assets	\$ 542.4	\$ 797.6
Property, plant and equipment - net	\$ 47.2	\$ 75.9
Operating lease right-of-use assets	140.2	144.9
Intangible and other assets - net	55.9	55.0
Total long-term assets	\$ 243.3	\$ 275.8
Total assets	\$ 785.7	\$ 1,073.4
Liabilities and stockholders' equity:		
Accounts payable, accrued expenses and other current liabilities	\$ 277.1	\$ 321.2
Short-term debt	2.6	0.4
Total current liabilities	\$ 279.7	\$ 321.6
Long-term debt	\$ 156.5	\$ 243.0
Long-term operating lease liabilities	125.4	135.1
Other long-term liabilities	37.0	36.8
Total long-term liabilities	\$ 318.9	\$ 414.9
Stockholders' equity	187.1	336.9
Total liabilities and stockholders' equity	\$ 785.7	\$ 1,073.4

Constant Currency Financial Information

The following table presents the Company's business segment and product net sales on a constant currency basis which are non-GAAP financial measures. To calculate net sales on a constant currency basis, net sales for the current fiscal year period for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average rates during the comparable period of the prior fiscal year. The Company presents constant currency information to provide investors with a basis to evaluate how its underlying business performed excluding the effects of foreign currency exchange rate fluctuations. The constant currency financial information presented herein should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

(\$ in millions)	Net Sales For the 13 Weeks Ended				Net Sales For the 26 Weeks Ended			
	June 29, 2024			July 1, 2023	June 29, 2024			July 1, 2023
	As Reported	Impact of Foreign Currency Exchange Rates	Constant Currency	As Reported	As Reported	Impact of Foreign Currency Exchange Rates	Constant Currency	As Reported
Segment:								
Americas	\$ 119.6	\$ (0.1)	\$ 119.5	\$ 146.7	\$ 229.6	\$ (0.9)	\$ 228.7	\$ 284.6
Europe	74.8	0.5	75.3	88.3	153.6	(0.5)	153.1	194.0
Asia	65.2	1.9	67.1	84.1	130.7	4.0	134.7	164.3
Corporate	0.4	—	0.4	2.9	1.0	—	1.0	4.1
Total net sales	\$ 260.0	\$ 2.3	\$ 262.3	\$ 322.0	\$ 514.9	\$ 2.6	\$ 517.5	\$ 647.0

Product categories:

Watches:								
Traditional watches	\$ 194.1	\$ 1.6	\$ 195.7	\$ 236.1	\$ 380.6	\$ 1.5	\$ 382.1	\$ 461.5
Smartwatches	8.4	—	8.4	17.8	17.3	—	17.3	42.2
Total watches	\$ 202.5	\$ 1.6	\$ 204.1	\$ 253.9	\$ 397.9	\$ 1.5	\$ 399.4	\$ 503.6
Leathers	27.2	0.2	27.4	33.3	54.7	0.5	55.2	73.6
Jewelry	24.2	0.4	24.6	27.4	50.5	0.6	51.1	56.4
Other	6.1	0.1	6.2	7.4	11.8	—	11.8	13.4
Total net sales	\$ 260.0	\$ 2.3	\$ 262.3	\$ 322.0	\$ 514.9	\$ 2.6	\$ 517.5	\$ 647.0

Adjusted EBITDA, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share

Adjusted EBITDA, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share are non-GAAP financial measures. We define Adjusted EBITDA as our net income (loss) before the impact of income tax expense (benefit), plus interest expense, amortization and depreciation, impairment expense, other non-cash charges, stock-based compensation expense, restructuring expense and unamortized debt issuance costs included in loss on extinguishment of debt minus interest income. We define Adjusted operating income (loss) as operating income (loss) before impairment expense and restructuring expense. We define Adjusted net income (loss) and Adjusted earnings (loss) per share as net income (loss) attributable to Fossil Group, Inc. and diluted earnings (loss) per share, respectively, before impairment expense, restructuring expense and unamortized debt issuance costs included in loss on extinguishment of debt. We have included Adjusted EBITDA, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share herein because they are widely used by investors for valuation and for comparing our financial performance with the performance of our competitors. We also use both non-GAAP financial measures to monitor and compare the financial performance of our operations. Our presentation of Adjusted EBITDA, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share may not be comparable to similarly titled measures other companies report. Adjusted EBITDA, Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share are not intended to be used as alternatives to any measure of our performance in accordance with GAAP.

The following tables reconcile Adjusted EBITDA to the most directly comparable GAAP financial measure, which is income (loss) before income taxes. Certain line items presented in the tables below, when aggregated, may not foot due to rounding.

(\$ in millions):	Fiscal 2023		Fiscal 2024		Total
	Q3	Q4	Q1	Q2	
Income (loss) before income taxes	\$ (55.2)	\$ (27.8)	\$ (30.4)	\$ (36.6)	\$ (150.0)
Plus:					
Interest expense	5.8	5.7	5.1	4.1	20.7
Amortization and depreciation	4.5	4.6	4.5	3.9	17.5
Impairment expense	0.6	1.3	0.4	0.6	2.9
Other non-cash charges	(0.2)	0.1	(0.1)	0.1	(0.1)
Stock-based compensation	1.5	1.1	1.0	0.6	4.2
Restructuring expense	16.0	15.5	10.1	16.7	58.3
Restructuring cost of sales	(1.3)	(1.3)	(0.2)	—	(2.8)
Less:					
Interest income	1.0	0.9	1.1	1.1	4.1
Adjusted EBITDA	<u>\$ (29.3)</u>	<u>\$ (1.6)</u>	<u>\$ (10.7)</u>	<u>\$ (11.7)</u>	<u>\$ (53.4)</u>

(\$ in millions):	Fiscal 2022 ⁽¹⁾		Fiscal 2023		Total
	Q3	Q4	Q1	Q2	
Income (loss) before income taxes	\$ 15.5	\$ (4.0)	\$ (39.6)	\$ (33.5)	\$ (61.6)
Plus:					
Interest expense	5.1	5.8	5.0	5.3	21.2
Amortization and depreciation	5.6	5.7	5.1	4.8	21.2
Impairment expense	0.6	1.2	0.1	0.2	2.1
Other non-cash charges	(0.4)	(0.3)	(0.2)	(0.5)	(1.4)
Stock-based compensation	(0.3)	2.3	1.4	1.6	5.0
Restructuring expense	—	0.7	7.1	4.6	12.4
Restructuring cost of sales	—	—	5.3	2.9	8.2
Unamortized debt issuance costs included in loss on extinguishment of debt	—	1.1	—	—	1.1
Less:					
Interest income	0.1	0.4	0.6	0.8	1.9
Adjusted EBITDA	<u>\$ 26.0</u>	<u>\$ 12.1</u>	<u>\$ (16.4)</u>	<u>\$ (15.4)</u>	<u>\$ 6.3</u>

(1) Prior period amounts have been adjusted to conform to the current period presentation.

The following tables reconcile Adjusted operating income (loss), Adjusted net income (loss) and Adjusted earnings (loss) per share to the most directly comparable GAAP financial measures, which are operating income (loss), net income (loss) attributable to Fossil Group, Inc. and diluted earnings (loss) per share, respectively. Certain line items presented in the table below, when aggregated, may not foot due to rounding.

For the 13 Weeks Ended June 29, 2024

(\$ in millions, except per share data):	As Reported	Other Long-Lived Asset Impairment	Restructuring Expenses	As Adjusted
Operating income (loss)	\$ (34.0)	\$ 0.6	\$ 16.7	\$ (16.7)
Operating margin (% of net sales)	(13.1)%			(6.4)%
Interest expense	(4.1)	—	—	(4.1)
Other income (expense) - net	1.5	—	—	1.5
Income (loss) before income taxes	(36.6)	0.6	16.7	(19.3)
Provision (benefit) for income taxes	2.2	0.1	3.5	5.8
Less: Net income attributable to noncontrolling interest	0.1	—	—	0.1
Net income (loss) attributable to Fossil Group, Inc.	\$ (38.8)	\$ 0.5	\$ 13.2	\$ (25.1)
Diluted earnings (loss) per share	\$ (0.73)	\$ 0.01	\$ 0.25	\$ (0.47)

For the 13 Weeks Ended July 1, 2023

(\$ in millions, except per share data):	As Reported	Restructuring Cost of Sales	Other Long-Lived Asset Impairment	Restructuring Expenses	As Adjusted
Operating income (loss)	\$ (35.3)	\$ 2.9	\$ 0.2	\$ 4.6	\$ (27.6)
Operating margin (% of net sales)	(11.0)%				(8.6)%
Interest expense	(5.3)	—	—	—	(5.3)
Other income (expense) - net	7.2	—	—	—	7.2
Income (loss) before income taxes	(33.5)	2.9	0.2	4.6	(25.8)
Provision for income taxes	(7.2)	0.6	—	1.0	(5.6)
Less: Net income attributable to noncontrolling interest	(0.2)	—	—	—	(0.2)
Net income (loss) attributable to Fossil Group, Inc.	\$ (26.5)	\$ 2.3	\$ 0.2	\$ 3.6	\$ (20.4)
Diluted earnings (loss) per share	\$ (0.51)	\$ 0.04	\$ —	\$ 0.07	\$ (0.40)

For the 26 Weeks Ended June 29, 2024

(\$ in millions, except per share data):	As Reported	Restructuring Cost of Sales	Other Long- Lived Asset Impairment	Restructuring Expenses	As Adjusted
Operating income (loss)	\$ (63.2)	\$ (0.2)	\$ 1.0	\$ 26.7	\$ (35.7)
Operating margin (% of net sales)	(12.3)%				(6.9)%
Interest expense	(9.2)	—	—	—	(9.2)
Other income (expense) - net	5.3	—	—	—	5.3
Income (loss) before income taxes	(67.1)	(0.2)	1.0	26.7	(39.6)
Provision (benefit) for income taxes	(3.9)	—	0.2	5.6	1.9
Less: Net income attributable to noncontrolling interest	0.1	—	—	—	0.1
Net income (loss) attributable to Fossil Group, Inc.	\$ (63.1)	\$ (0.2)	\$ 0.8	\$ 21.1	\$ (41.4)
Diluted earnings (loss) per share	\$ (1.20)	\$ —	\$ 0.02	\$ 0.40	\$ (0.78)

For the 26 Weeks Ended July 1, 2023

(\$ in millions, except per share data):	As Reported	Restructuring Cost of Sales	Other Long- Lived Asset Impairment	Restructuring Expenses	As Adjusted
Operating income (loss)	\$ (72.6)	\$ 8.2	\$ 0.2	\$ 11.7	\$ (52.5)
Operating margin (% of net sales)	(11.2)%				(8.1)%
Interest expense	(10.4)	—	—	—	(10.4)
Other income (expense) - net	9.9	—	—	—	9.9
Income (loss) before income taxes	(73.1)	8.2	0.2	11.7	(53.0)
Provision for income taxes	(5.6)	1.7	—	2.5	(1.4)
Less: Net income attributable to noncontrolling interest	(0.3)	—	—	—	(0.3)
Net income (loss) attributable to Fossil Group, Inc.	\$ (67.8)	\$ 6.5	\$ 0.2	\$ 9.2	\$ (51.9)
Diluted earnings (loss) per share	\$ (1.30)	\$ 0.12	\$ —	\$ 0.18	\$ (1.00)

Store Count Information

	July 1, 2023	Opened	Closed	June 29, 2024
Americas	146	2	28	120
Europe	92	1	24	69
Asia	77	2	10	69
Total stores	315	5	62	258

END OF RELEASE